

Identification of Staff Remuneration Risks in a Production Company

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Introduction

Remuneration, according to the definition provided by the Polish National Labour Inspection Authority, is a “periodic financial consideration for work provided within legal employment relationship, respectively to its kind, quantity and quality”. Each decision pertaining to remuneration is associated with risk. This stems not only from the turbulent surroundings of the company, but also from the fact that remunerations serve multiple functions, which are in contradiction with one another, e.g. the income function with the cost function. This means the necessity of their continual balancing in the organisation (Borkowska, 2012, p. 28).

For the needs of this article, it was assumed that the risk of remunerating employees will be understood as the possibility of the occurrence of negative events, or effects which may be material or non-material, in the scope of human resources management, the source of which is the process of remunerating employees. It is a risk which may appear as a result of the way the process of remuneration is carried out in the company. This does not include the risk of negative effects arising as a result of deliberate committing abuses or breaking the law by the employees.

Recently, the remuneration risk in production companies has gained importance. This is evidenced by the data from the 7th *Report on monitoring the current economic situation – research 2016-2018*, which show that the risk of bankruptcy for production companies is at warning level. This risk has been identified in all size classes of companies and in all manufacturing industries. The identified risk of bankruptcy results, among others, “from higher growth in employees remuneration than the growth in labour efficiency” (Hausner, 2019, p. 5). Also the pandemic of COVID-19 is a factor the impact of which should also be taken in consideration in the process of estimating the remuneration risks. These are: a temporary decrease in the labour supply on the labour market (due to sick leave and quarantine) as well as a decrease in the companies turnover causing that the remunerations as an element of fixed costs may increase the risk of bankruptcy (Sieroń, 2020). This raises the need for deeper analysis of the remuneration risks.

The aim of this article was the identification of employees remuneration risks in a big production company from the management point of view. This process was carried out at all organisational levels: strategic, tactic and operational, together with their division as to the risk determinant’s localisation – from the company’s external environment (exogenous determinants) and these resulting from the human resources management processes (endogenous determinants). This division is significant for the organisation of the process of the remuneration risks management.

To execute the goal of this study, empirical research was conducted in the form of a case study on a specific production company. A preliminary identification of the list of risks was carried out based on the literature and the organisation’s documents and the proper identification of the risk from the management point of view, using semi-structured interviews. For categorising the remuneration risk, a modified FMEA method was applied, in a version presented by A. Lipka. Eventually, a list of categorised remuneration risks in the company was obtained.

The status of research on issues of remuneration risk and its categorisations

Remuneration risks appear in the literature as one of the constituent elements of personnel risk in organisations. Its analysis refers to one or more aspects of this concept, e.g. in the form of labour costs, motivation risk (Tyrańska, 2007, pp. 164-167; Shelest, 2013, p. 78; Czerska, Rutka, 2016, p. 27; Lipka, 2016, pp. 108-109; Bombiak, 2019, p. 50). Such approach does not fully take in consideration the complexity of the issue. Remuneration as an economic category should be analysed with the acknowledgement of social, legal, cultural, ethical and political aspects. In its risk analysis, the phenomena related to the difference in the employees generations on the labour market and the ones cooperating in work teams, ageing of societies, technological changes and globalisation should be depicted, as well as the related to the current event – the COVID-19 pandemic.

Research pertaining to the parametrisation of the personnel function conducted by M. Gołembski and G. Wojtkowiak revealed that the identification of risks in companies most frequently pertains to motivation and remuneration. At the same time, research points to the existence of a gap between risk awareness and risk management (Gołembski, Wojtkowiak, 2016, pp. 134-135). The conclusions drawn from a literature review, K. Becker and M. Smidt (2015), related to the practices of risk management, show that not many publication have been devoted to the remuneration risks. The risk of rewards was included in the company's reputational risk and te legal risk, and only 2 publications (out of 81 subjected to analysis) were related to the remuneration risks. The former one presented the results of research related to the impact of motivation systems on ensuring information security of companies, while the latter presented the risk of not adjusting the system of remuneration to the form of hiring employees (Becker, Smidt, 2015, p. 9). In other publications, the context of the research on remuneration risks is the financial crisis of 2008 and the role of remuneration in taking decisions. The subject matter of the research was risk taking when executing goals, depending on the

remuneration (Barucci, Marazzina, 2015, p. 1), reducing the risk of the business activity of companies through remuneration policy (Okoń, 2012, p. 1), specification of the impact of the rules of remunerating the chief executive officers on the decisions taken by them (Baužytė, 2010). Also the impact of remuneration on the stability of banking system and financial institutions has been investigated (Valvonis, 2009; Thanassoulis, Tanaka, 2016; Kokkinis, 2018; Nguyen, Boateng, Nguyen, 2018; Unda, Ranasinghe, 2019; Ayed, Mondello, 2020; Hodges, 2020). This listing shows that remuneration risks have been investigated only in selected aspects, and not holistically, taking into account the economic, social, legal, political and psychological factors (Borkowska, 2012, p. 28-32).

In the specialist literature we can find different categorisations of remuneration risks (Lipka, 2017, p. 422). A. Lipka marked out tens of determinants (sources) of these risks. For the purposes of this study, the division as to their localisation is of significance – from the company external environment (exogenous determinants) and resulting from the processes of human resources management (endogenous determinants) as well as the classification related to the kind of losses or benefits (maladjustment of demand or supply, the risk of: selection, recruitment, motivation, employees adaptation and development, shaping of attitudes and layoff). The risks of awarding produce material and non-effects, and their consequences may have not only an internal but also external range (organisation image). The remuneration risks may be divided into specific individual methods: the area of personnel procedures; or nonspecific – appearing at the execution of various elements of the personnel function, e.g. the risk of conflict, ineffectiveness, or pertaining to logistics) (Lipka, 2017, pp. 412-419).

The presented categorisations of risks show that their analysis may be carried out at different levels. At the analysis from the time perspective level for chosen goals of the organisation, there are marked out strategic, tactical and operational risks (Zapłata, 2016, p. 83). S. Sudol supplements the time perspective pertaining to the differentiation of the above levels

with two more criteria: the importance of actions and the degree of their impact on the direction of the organisation's development (Sudoł, 1988, p. 212). The strategic planning is linked to higher risks, the source of which is taking decisions related to a long-term perspective. The tactical level has the time perspective of one year, and the operational one – a couple of months. Following a query in literature, a total of 66 risks have been identified, and among them: 17 had their source in the external environment of the organisation, and 49 inside the organisation (12 at a strategic, 8 at a tactical, and 29 at an operational level). The sources of 17 risks from the organisation external environment are in economic, sociocultural, political-legal factors, in labour market and competition. In this field, the greatest number of risks was identified in relation to an increase in minimal salary, followed by those related to political-legal factors (Beck-Krala, 2013; Borkowska, 2013; Oleksiak, 2014; Lipka, 2017; Michalewska, Pasieczny, 2018).

FMEA – method of remuneration risk identification, analysis and evaluation

Organisations apply various attempts at risk analysis, which differ in the accuracy of the actions taken – from basic strategy, consisting in using standard securities, through informal risk analysis, to its detailed analysis. They aim at taking actions which will allow for the future safe functioning of a specified business area of the company. The proposal for using the method of FMEA (*Failure Mode and Effect Analysis*) for the evaluation of risk related to the personnel function was presented by A. Bienkowska and A. Zabłocka-Kluczka (2008). This method was originally applied in industry for analysing the origins of product defects, and it was intended to improve the product's reliability. It was adopted also for finding the process risk (launched and in design phase), allowing for identification of the factors/disturbances which may occur in the process. Its application allows to acquire information about the areas which, bearing the highest risks, should be controlled, or to perform deeper further analyses. The

authors point out that, due to its complexity, should be subjected to decomposition, and in the risk analysis they single out the area of employees remuneration.

Applying the FMEA method consists in the conducting of analysis of the kinds and effects of possible mistakes which may occur during the execution process. This method consists of the following steps: identification of individual stages of the process, making the list of possible mistakes/defects, and next their probable causes and effects. This stage is followed by risk assessment. Its outcome is a risk priority number, which is the product of 3 elements: probability of an event occurrence, the severity of its effects and the certainty of detecting the risk sources. Each of the elements mentioned above is evaluated on the scale of 1-10, which means that the maximum risk priority number may be 1000, and the minimal – 1. Conducting the above evaluation allows for the classification of identified risks from the highest to the lowest. The risk index, combining in itself three factors, allows to mark out three ways of its reduction/elimination, by: reducing the probability, reducing its effects or eliminating the risk source.

Research method – case study assumptions

In order to achieve the goal, empirical research was conducted in the form of a single case study in a large production company¹. In the literature, a broader meaning of case study is emphasized, which is understood as a research strategy aimed at the analysis of specific phenomena, using the qualitative and quantitative methods (Kožuch, Marzec, 2013, p. 2). In social sciences, a case study is defined as detailed analysis of a particular phenomenon, process, event or occurrence, where a specific context is of significance (Babbie, 2019, p. 320). Authors describing the methods of personnel risk assessment emphasize the significance of detailed analysis of personnel processes together with the specific organisational context for

¹ The company that conducted the research remained anonymous.

their correct evaluation (Czerska, Rutka, 2016 p. 25). Thus, the selection of case study for achieving the goal of the study is justified.

Selection of the organisation was dictated by the high complexity of its remuneration systems. It is a production company where the biggest group is composed of employees hired on hourly-rate or piecework principles, in shift work system. Different rules of remuneration apply to specialists from support services and to the managers. The organisation also employs specialists on other forms of contracts. In the organisation a necessity appeared of establishing a list of remuneration risks. Thus, a case study was used, which allows to examine the complexity of remuneration risks, but also the generalisation of the results obtained.

That is why the following research questions were asked:

1. What endogenous and exogenous remuneration risks occur in a production company?
2. Which of the identified remuneration risks, in the management's opinion, may be qualified within the strategic, tactic and operational levels, and what is their significance?

As research methods, the following were applied: content analysis method and interview method using research technique – semi-structured interview.

The data was collected in three stages:

- a) identification and preparation of the risk checklist on the basis of the literature and an analysis of the organisation's documents;
- b) verification of the prepared risks checklist by the respondents. The respondents were: a representative of the company's board supervising the HR area, managers of the HR area units, a senior manager supervising the finance and controlling area, a manager of the office supervising the management system (5 persons). A research technique of semi-structured interview was applied;
- c) an assessment of individual risks done by the respondents. The respondents were: a representative of the company's board supervising personnel area, managers of units and specialists of

personnel area, a senior manager supervising the area of finances and controlling, managers of organisational units (10 persons). The research technique of a semi-structured interview was applied.

The analysis and the research were conducted in the 2nd quarter of 2020. The organisation on the basis of which the research was conducted is a large production company employing more than 1500 employees. The company has been existing for more than 70 years, and for the last few years it has been operating within a consolidated group of plants of a similar production profile. The organisation has a Quality Certificate ISO 9001:2015, ISO 14001:2015, ISO 45001:2018. It is a private joint-stock company. Due to the character of the executed technological processes, most of the company's employees work on shifts. The employees are paid on the basis of records included in two documents: Managing Staff Remuneration Rules and Company Collective Agreement. These documents constitute the basis for the payments of all components of employee remuneration and are formulated in a dialogue with the community representation. In the company three union organisations operate, which unite more than half of the employees.

The employees receive high fixed remuneration, consisting of basic-rate salaries and a lump-sum premium for shift work. Motivation-based elements of the remuneration system comprise a quarterly bonus and annual reward. The budget of the quarterly bonus is calculated on the basis of the performance of the goals specified in the Balanced Scorecard, and the bonus distribution among the employees depends on the assessment conducted by their superiors. The amount of the quarterly bonus at maximal performance of goals is approximately 24% of the employee's basic salary. Additionally, the employees receive numerous extras to the salary, such as: seniority allowance (1% of the basic salary for each year worked in the Company), allowance for substituting the team leader on the production installation, jubilee rewards, severance pays in amounts higher than those provided in the Labour code). The average work experience of an employee in the company is longer than 20 years. An

average salary for 2019 was 7 380.00 PLN gross, for comparison, according to Polish Central Statistics Office, the average salary in the area of industrial enterprises was 5 169.06 PLN gross, and in the Opole district – 4 887.80 PLN gross (GUS, 2019, 2020). In the remuneration internal structure for white-collar positions, the basic salary makes up 80% of total remuneration, and for the blue-collar positions – 63%. As it is seen from the above comparison, the remuneration of the organisation's employees may be considered attractive. In spite of this, a need has appeared in the organisation to determine the remuneration risks.

Remuneration risks in the studied production company – research outcome

The first stage of the research was the identification and preparation of the risk checklist, on the basis of the specialist literature and an analysis of the organisation's documents. The result of the analysis of the Company Collective Agreement, The Managing Staff Remuneration Rules, the organisation's strategy and the agreements with community representatives related to changes in the remuneration from the last 5 years was a list of 50 identified remuneration risks. And a list of 66 risks identified while reviewing the literature was attached to it. The total number of risks was 116. After rejecting the repeating positions and their aggregation, a list of 41 remuneration risks was obtained, which were included in the questionnaire making the basis for the interview with the respondents. It was intended to identify the risks and verify their descriptions. During the interview, the respondents could supplement the presented list. Propositions reported in the interview were analysed. As a result of this stage, on analysis, 18 risk descriptions were removed from the checklist, and 2 new were included. The final list included 25 risk descriptions.

The next task for the respondents was conducting risk assessment using the FMEA method modified by A. Lipka (Lipka, 2017, pp. 419-421). This method assumes a division of the identified events according to the

sources of risk (endogenous, exogenous), and then assessment in the scope of:

- a) probability of risk occurrence on a scale from 1 to 10 (1 – very low, and 10 – very high probability);
- b) severity of the effects of the risk on scale from 1 to 10 (1 – unnoticeable effects, 10 – very serious effects determining the remuneration effectiveness);
- c) certainty of detecting the risk sources on scale from 1 to 10 (1 – total certainty, 10 – lack of the possibility of risk source identification).

During the interview, the respondents could supplement the presented checklist of risks. Assessments of the individual risks done by the respondents were averaged, and then classified according to their levels: low risk for the index in the range of 1-50 (L), average risk in the range of 51-100 (A), high risk: 101-200 (H), very high risk: 201-1000 (VH) (Miller, 2011, acc. to: Dudek, 2016, p. 117).

Out of the 25 assessed risks, 22 were classified by the management as endogenous. Three of them were assigned determinants of a mixed character: endogenous-exogenous. They were identified in the area of internal remuneration structure at strategic level. They pertain to the younger generation employees.

A detailed description of the risks together with their assessment and classification as to the level of the organisation activity was presented in Table 1. The data has been ranked in accordance with average results of the assessment conducted with FMEA method, from the highest to the lowest risks. Table 1 shows that 23 risks were assigned by the management to the strategic level, and only 2 to the to the operational level. No risk was assigned to the tactical level. Two risks were qualified by the respondents as very high risks. They include the risks which are related to each other: organisation culture not favouring the increase of effectiveness and acknowledgement by employees that bonus is a part of basic salary. For the purposes of further analysis, the risks were divided into groups.

Table 1. Results of the remuneration risks assessment

No.	Risk description	Risk assessment: very high (VH), high (H), average (A)	Risk at the strategic (S), tactic (T), operational (O) level
1	Organisation culture does not support implementing changes in remuneration to favour work effectiveness.	VH	S
2	Quarterly bonus is deemed by the employees a fixed part of the remuneration and does not motivate to better performance.	VH	O
3	Applying too many and/or unclear bonus criteria reduces the effectiveness of rewarding.	H	S
4	Not using the work valuation at establishing the basic salary causes that the employees are not rewarded respectively to the work difficulty.	H	S
5	The system of equal remuneration promotes the occurrence of ineffective behaviours at work.	H	S
6	A bonus which constitutes too small part of the total remuneration reduces the employees motivation.	H	S
7	Remuneration strategy does not support the strategy of the organisation.	H	S
8	Lack of horizontal promotion paths demotivates the employees to improve their qualifications.	H	S
9	Equal pecuniary raises to remuneration cause demotivation of the employees on managerial and specialist positions.	H	S
10	Remuneration offered at the beginning of employment does not attract new employees to the organisation on specialist positions (e.g. automation engineers, electricians, financiers)*.	H	O
11	The use of a basic-rated salaries instead of a commission form, results in work effects that are below the capabilities of employees.	H	S
12	The fixed remuneration of employees in sales area is too high in relation to the variable part, which causes that the employees perform the tasks below their abilities.	H	S
13	A high value of the shift premium does not favour promotions to the positions in one-shift work system.	H	S

No.	Risk description	Risk assessment: very high (VH), high (H), average (A)	Risk at the strategic (S), tactic (T), operational (O) level
14	Lack of cafeteria solutions in remuneration system causes difficulties in attracting and motivating employees of younger generation*.	H	S
15	The remuneration model is not adjusted to the position of a leader on the pay market.	H	S
16	Inappropriate establishment of the variable part of remuneration results in work effects below the employees' abilities.	A	S
17	Lack or incorrect communication from the superiors related to set goals leads to the lack of acceptance of the bonus system.	A	S
18	The way of calculating seniority allowance promotes the growth of too big differences between the same workstations operated by employees with different work experience.	A	S
19	Lack of feedback from the managers to the employees in relation to behaviours influencing the increase or decrease in remuneration reduces the effectiveness of the remuneration system.	A	S
20	A low share of the variable part in remuneration, depending on the performance, makes the dedicated employees leave the organisation.	A	S
21	Raising the basic salaries and derivative components (instead of motivating parts) depending on the work effectiveness, makes the labour costs difficult to reduce in case of economic difficulties.	A	S
22	Indexation of remuneration executed in cash amount and not in percentage leads to the employees demotivation.	A	S
23	Rewarding the sales representatives for sales volumes and not for incomes from sales reduces the effectiveness of sales.	A	S
24	For newly hired employees the seniority allowance does not matter while taking the decision about starting work in the organisation*.	A	S
25	Flattened by cash raises table of basic salaries does not offer attractive raises in remuneration at employee's vertical promotion.	A	S

Source: own study on the basis of research results.

*a risk of mixed character, whose determinants are endogenous and exogenous

Table 2. Juxtaposition of grouped endogenous risks with reference to the level of identified risks

Description of the group of risks	Average risk indicator	Number of risks at individual levels:		
		average	high	very high
Lack of matching the remuneration strategy to the organisation	132	–	1	–
The organisation culture does not support changes in the system of remunerations increasing effectiveness	231	–	–	1
Inefficient communication processes within the remuneration system	86	2	–	–
Equality model of remuneration system	130	–	4	–
Incorrect structure of the internal remuneration system	107	3	3	–
Indexation and salary raising process based on amounts	81	3	1	–
Dysfunctions in the process of awarding bonuses	146	1	2	1
In total:	–	9	11	2

Source: own study on the basis of research results.

In total 11 endogenous risks were assessed at a high level, and at an average level of 9. The greater number of them were identified in the internal structure of the remuneration system (with the average value of the indicator 107). Four of the risks (with an average value of the indicator 146) are related to the bonus system, and 4 to the model of remuneration, with the average indicator at the level of 130. The above analysis indicates the areas of the remuneration process which should be subjected to a detailed analysis in order to reduce or eliminate the risks.

Conclusions

The aim of this study has been the identification of employee remuneration risks in a large production company from the management point of view. In the production company 22 remuneration risks of endogenous character

were identified, and 3 of mixed character. The risks were, according to the organisation management, assigned to two levels: strategic and operational. No risk was assigned to the tactical level. As many as 23 risks were assigned to the strategic level. Such an assignment of the risks by the managers may result from the complexity of the applied systems of remuneration and the procedures of shaping salaries in a production company through negotiations. The risk assessment was conducted using the FMEA method, which allowed for the putting of risks in order as to their importance. Two risks out of the 25 assessed were qualified at a very high level, and 11 endogenous risks were classified at high level. Management focusing on the endogenous risks stems from two factors. The employees of the organisation receive attractive salaries, significantly surpassing the average salaries in industry. That is why the exogenous risks resulting from economic, social and political, as well as legal and competitive factors, are perceived as negligible. The source of risks for a big production company is the complexity of the remuneration systems, which, being separate for individual employees groups, must form a coherent whole. Thus, the identification of remuneration risks in a big organisation is a time-consuming process, requiring individual approach. The obtained results may serve the organisation for taking actions limiting the effects of the identified remuneration risks. The outcomes obtained in the remuneration risk assessment are consistent with other research on remuneration systems conducted in Polish companies (Oleksiak, 2013).

This article does not exhaust all issues pertaining to the subject matter, but points to further directions of research. Within its frames, a detailed analysis may be attempted of the risks whose source is the model and internal structure of the remuneration system, or the bonus system in a production company. A valuable supplementation might be also a verification of the remuneration risks in a production company from the employees' point of view. While analysing the research results, the context of their execution at the time of COVID-19 pandemic should be noted, and further research should be considered after its termination.